

Does Mandatory Adoption of IFRS Guarantee Compliance?

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In this study we examine whether the mandatory adoption of IFRS by Turkish listed companies in 2005 was successful in practice and what role firm and country level factors played in the adoption. The firm-specific factors that affect the degree of change in both measurement and disclosures are determined by conducting a multivariate analysis. Further, we conduct interviews with external auditors to throw some light on the challenges associated with, and outcomes of, adoption. We find that whilst the standards clearly impact on certain accounts, adoption is not uniform across them and that overall measurement change is positively associated with auditor prominence and gearing, and negatively associated with the degree of free float. With regard to disclosures, we find that although there are some improvements, the vast majority of the disclosure items required by IFRS were not disclosed. Auditor type, size and the degree of foreign ownership of shares exert a positive impact on the overall improvement in disclosures. Our interview analysis reveals that the dominance of tax laws, the lack of enforcement, corporate governance issues, and inadequate management information systems were all significant constraints to the successful adoption of IFRS.